



Building a serene future

# Anaxis Asset Management

## ANNUAL ETHICAL MANAGEMENT REPORT



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**THE** ANAXIS TEAM is deeply committed to sustainable investment, and our ambition is to help build a better future. Our role is to decide how to allocate financial resources in such a way to nurture the economy and shape the world of tomorrow. Promoting the transition to a fairer and more sustainable society is a moral imperative. It is also the only clear-sighted, rational way to fulfil the responsibilities we bear.

*Pierre Gai-Levra*

Chairman

# 1. Introduction

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This annual report as at 31 December 2021 sets out how sustainability factors are incorporated into our investment policy. These factors concern environmental, social and personnel matters, respect for human rights and the fight against corruption<sup>1</sup>. Throughout this report, we will be following the provisions of article D533-16-1 of the French Monetary and Financial Code. The results presented relate to our entire portfolio management business. Investors looking for further information on this topic can consult our dedicated website at [www.anaxis-esg.com](http://www.anaxis-esg.com).

# 2. Products concerned

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Our ethical management policy is applied differently to each of the following groups of UCITS, all of which are governed by French law.

## Group 1

*Anaxis Short Duration*

*EM Bond Opp. 2024*

*Diversified Bond Opp. 2025*

**€315.9 million – 60.4% of AUM**

UCITS that take sustainability factors into consideration and have adopted sustainable investment objectives focused on the climate transition in addition to financial objectives.

## Group 2

*Anaxis Income Advantage*

*European Bond Opp. 2022*

**€184.7 million – 35.3% of AUM**

Bond UCITS that apply an enhanced sector exclusion policy, and for which sustainable investment objectives consistent with those of group 1 will be defined in 2022.

## Group 3

*AAM Family Values*

**€22.4 million – 4.3% of AUM**

An equity investment fund that applies a sector exclusion policy and falls within the scope of activities for which global climate objectives have been defined. These objectives have not yet filtered down to the level of the fund's management policy.

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<sup>1</sup> As required under article 2 (24) of Regulation (EU) 2019/2088 of the European Parliament and of the Council of 27 November 2019 on sustainability-related disclosures in the financial services sector ("SFDR").

## 3. General approach

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### Taking sustainability factors into account

#### Exclusions

We exclude companies belonging to the fossil fuel segment, as well as the weaponry, tobacco and non-therapeutic GMO sectors. Moreover, companies with significant operations in the field of fertilisers, pesticides or packaging plastics are ruled out owing to their negative impact on the European Union's sustainability objectives. Key causes of concern are pollution, as well as the damage caused to ecosystems, biodiversity and aquatic resources.

#### Environment

We assess companies on their environmental policies and their commitment to the transition to carbon neutrality. Scores are assigned to the companies. Stricter criteria are applied when the activities in question are likely to have a larger impact on the environment or the climate, as is the case for transport and cement production. The approach favours companies that are making the most effort in a given field.

#### Aquatic environments

In addition to our climate commitment, we apply an environmental policy aimed at protecting aquatic environments and water resources. Aquatic environments are particularly fragile and poorly protected by national policies. This is why we identify the economic activities likely to have a major impact on aquatic environments, fish stocks, the quantity and quality of available water reserves, access to drinking water and other water-related topics. Investments in companies with such sensitive activities are subject to specific rating criteria based on an approach that rewards best efforts.

#### Social responsibility

We ensure that selected companies comply with ethical standards as regards human rights and social responsibility. The UN Global Compact principles serve as a guide in this analysis. The approach entails excluding companies with unacceptable practices.

#### Governance

Governance is a key part of the risk analysis performed by our management team. The analysts use a table of factors to identify the main risks associated with an issuer and measure their intensity. The selected approach in this area favours best practice in each sector.

### Controversies

We monitor controversies affecting the issuers in the portfolio. Concerning events are analysed impartially by our ethics committee. They are assessed in relation to their seriousness, impact and frequency, and the company's response. If a company is excluded from our investment universe because of a controversy, the exclusion only applies for a set period, after which the case will be reassessed.

### Adverse sustainability impacts

The funds' impact is assessed using the data available, with a particular emphasis on the environment, and by applying an analysis method designed to ensure that the selected investments do not significantly harm our sustainability objectives. The regulation provides for the application of a set of technical criteria requiring detailed information from companies. Unfortunately, only a small proportion of the issuers in our investment universe are able to provide the requisite information at present.

### Managing sustainability risks

We believe that sustainability risks could have a major impact on the performance of the portfolios we manage. Sustainability risks are derived from factors such as meteorological events ("physical risks") and the need for companies to adapt swiftly ("transition risks"). Social aspects (human rights, discrimination, labour relations, accident prevention, etc.) and governance shortcomings are also sources of sustainability risk. This is why we have incorporated those sustainability risks we deem to be the most significant into our investment selection process.

## Publication of information

[anaxis-esg.com](http://anaxis-esg.com)



We inform investors of how sustainability factors are incorporated into our portfolio management process via annual reports. These reports are drawn up in accordance with legal and regulatory requirements. The most recent report is freely available at [www.anaxis-esg.com](http://www.anaxis-esg.com). Our ethical management policy is also available online at the same address.

Additional information, for example regarding our list of exclusions or the alignment of current portfolios with our objectives, can be obtained by email.

→ [info@anaxis-am.com](mailto:info@anaxis-am.com)

## Products taking sustainability factors into consideration

Group 1 products, which represent 60.4% of assets under management, comply with the provisions of article 9 of the SFDR. Group 2 products (35.3% of AUM) will start taking sustainable investment objectives into account in 2022.

## Collective initiatives

Our company is a member of the Institutional Investors Group on Climate Change (IIGCC). We have also been committed to the Net Zero Asset Managers initiative since its launch. The aim is to ensure that investment portfolios are carbon neutral by 2050. Furthermore, Anaxis is a signatory to the United Nations Principles for Responsible Investment (PRI) and a member of the Task Force on Climate-related Financial Disclosures (TCFD). Our aim is to take collective action to ensure that companies release specific, transparent data on climate-related issues.

### PRI

Signatories to the Principles for Responsible Investment form a network of investors working together to implement six development principles with support from the United Nations. The aim of this network is to understand the implications of sustainable development for investors and to help them incorporate these questions into their investment decisions. By adhering to these principles, the signatories are contributing to the development of a more sustainable global financial system.

### IIGCC

IIGCC aims to mobilise capital for the transition towards a low-carbon economy, and ensure resilience to the consequences of climate change, by working with businesses, policymakers and investors.

### NZAM

The Net Zero Asset Managers initiative brings together a group of international asset managers who support the aim of achieving carbon neutrality no later than 2050, in line with international efforts to limit global warming to 1.5 °C. The initiative encourages investments aligned with this objective.

### TCFD

The FSB Task Force on Climate-related Financial Disclosures (TCFD) produces data on the financial risks linked to climate change. Businesses use this data to provide information to investors, lenders, insurers and other stakeholders.

## 4. Internal resourcing

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### Dedicated resources

The equivalent of 1.75 full-time employees worked on the sustainable investment process in 2021. The budget allocated to this area was around €190,000. The following data suppliers are used:

- Lucror Analytics for analysis of governance risks, in particular on issuers from emerging markets,
- ISS for controversy monitoring, compliance with universal ethical standards and greenhouse gas emissions,
- Carbon Disclosure Project (CDP) for information on companies' greenhouse gas emissions, their climate strategy and their consideration of water-related issues,
- Coal Exit List for identification of controversial activities and projects in the fossil fuel sector,
- Bloomberg for monitoring of greenhouse gas emissions and the classification of portfolio positions.

### Actions taken

#### Introduction of sustainable investment objectives

We have decided to set sustainable investment objectives for all products in our range. Accordingly, three UCITS representing over 60% of our assets under management incorporated objectives for reducing greenhouse gas intensity into their investment policies in 2021. These UCITS take key sustainability factors into account and are compliant with the requirements of article 9 of the SFDR. The group 2 UCITS referred to above will follow suit in 2022.

#### The management company's global commitment

We joined the Net Zero Asset Managers initiative at the time of its launch in December 2020. In October 2021, we confirmed our commitment by publicly announcing a set of objectives committing our company to working towards carbon neutrality.

In the run-up to COP26, we signed a collective appeal by The Investor Agenda calling on the world's governments to take more ambitious steps to combat global warming. The 733 investors to sign collectively account for more than \$52 trillion in assets.

### Communicating with investors

We have formalised our ethical management process. A summary document is available on our website dedicated to this theme ([www.anaxis-esg.com](http://www.anaxis-esg.com)). Moreover, sustainability indicators have been incorporated into the monthly reports of the UCITS in group 1.

### Internal structure

We have set up an ethics committee to define our sustainable investment policy, coordinate its implementation and make decisions about issuers implicated in controversies.

### Monitoring tools

Dashboards allow for key sustainability indicators to be monitored on a monthly basis. Analysis of the results is shared with managers and then discussed with them to examine possible areas for improvement.

### Internal training

An in-house training programme raises awareness of sustainable investment issues among staff and helps to familiarise them with regulatory changes, as well as the structure, procedures and tools we use internally. Weekly updates take place during a meeting attended by the entire team.

### External training

Two members of our team have undergone specific training and been certified as ESG Analysts by EFFAS (the European Federation of Financial Analysts Societies).



“Protecting the environment and biodiversity must be taken into account in every investment decision. The aim is not to offer a range of complementary products tailored to certain clients’ sensitivities, but rather to fulfil an ethical responsibility arising from all of our activities.”

Pierre Gaii-Levra, Chairman

## 5. Internal governance

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### Governance bodies

#### Strategic commitment

The Chairman of Anaxis Asset Management, Pierre Giai-Levra, personally monitors every aspect of the implementation and operation of our responsible investment policy. This level of conviction, involvement and willingness is what makes all the difference. We view sustainable investment as a vital imperative.

#### Ethics committee

Our ethics committee comprises the Chairman (Pierre Giai-Levra), Compliance Officer (Fatima Guirradi), Risk Officer (Maxime Boulon) and, depending on the topics discussed, one or more representatives of the management team. Fatima Guirradi holds the ESG Analyst certification issued by EFFAS.

#### Management committee

Anaxis Asset Management is managed by a management committee. Given the entrepreneurial nature of the company, it does not have a supervisory board or board of directors at this stage. Were these to exist, we would need to draw up rules stipulating how sustainability factors are incorporated into the decision-making process.

#### Audit and internal control

Monitoring the formalisation and application of procedures for taking sustainability factors into account is now part of both the internal control process (carried out under the supervision of an independent firm) and the audit programme followed by the UCITS' auditors.

### Remuneration policy

The extent to which sustainability risks are taken into account is identified in our remuneration policy as one of the criteria on which team members are individually assessed. Moreover, as our development strategy is explicitly focused on ethical management, our incentive system is designed to encourage the incorporation of sustainability factors into our activities. Our approach entails defining quantified sustainable investment objectives (in addition to financial objectives) and implementing specific procedures. As a result, the share of managers' remuneration determined in relation to performance achieved and compliance with procedures includes, in practice, a large component linked to sustainability.

## 6. Engagement strategy

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### Companies concerned

Our goal is to have an engagement system covering all companies that are engaged in sensitive activities as regards greenhouse gas emissions and yet to introduce a credible transition policy in line with the aims of the Paris Agreement. We hope to achieve full coverage by 2030, with an interim target of 70% of the AUM concerned by 2022.

### Engagement strategy summary

27

As at the date of this report, engagement efforts have been initiated with 27 issuers.

6.6%

The positions concerned represent 6.6% of all assets under management.

### Voting policy

This report primarily concerns our fixed income segment, which represents 95.7% of assets under management and is not covered by the voting policy. For investors interested in our equity segment specifically, a document describing our voting policy is available at <http://anaxis-am.com/fr/legal.php>.

### Voting policy summary

Our efforts so far have entailed engaging with individual bond issuers. At present, we do not seek to use our position as a shareholder to influence strategy at the companies in which we hold shares. The percentages in question fall below the thresholds stipulated in our voting policy.

### Sectoral disengagement

We have decided to disengage our funds from all companies with extensive operations in the fossil fuel industry. This decision concerns all segments, from exploration to electricity generation and gas distribution. The share of turnover derived from such activities is the decisive criterion. This share must not exceed 5%. In the case of coal, we also apply absolute thresholds: 10 million tonnes extracted or 5 gigawatts of capacity installed for the purpose of generating electricity.

We also exclude companies with new projects in areas that are particularly environmentally harmful. This policy was drawn up in 2021.

## excluded activities



- coal extraction
- construction of coal-fired power stations
- shale gas exploitation
- oil sands exploitation
- hydraulic fracking
- deep-water drilling
- Arctic drilling

Our sectoral disengagement strategy targets other activities including fertilisers and pesticides. Further details about the reasoning for and implementation of this strategy can be found in the document describing our ethical management policy, which is available to investors on our dedicated ESG website.

→ <http://anaxis-esg.com/en/anaxis-ams-esg-policy-documents/>

“Management companies face a twofold challenge: adapting their methods to the risks posed by climate change and allocating financial resources so as to pave the way for ecological transition. Profound changes are needed to respond to new requirements derived not only from regulations but also from our fiduciary and societal responsibility.”

Fatima Guirradi, Compliance Officer

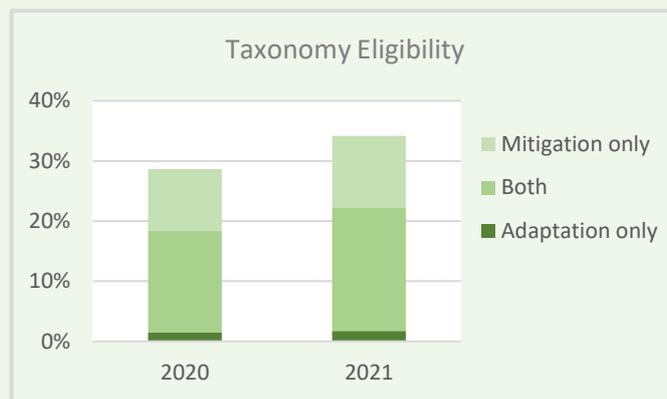


## 7. Taxonomy, fossil fuels

### Eligible share

34.2%

It is not yet possible to determine the share of AUM that is in compliance with the sustainability criteria defined by the new European regulatory texts, as the information required is not published by the companies concerned. However, we estimate that the share of eligible activities is 34.2% of assets under management as at 31 December 2021, which represents a 5.5% increase on last year.

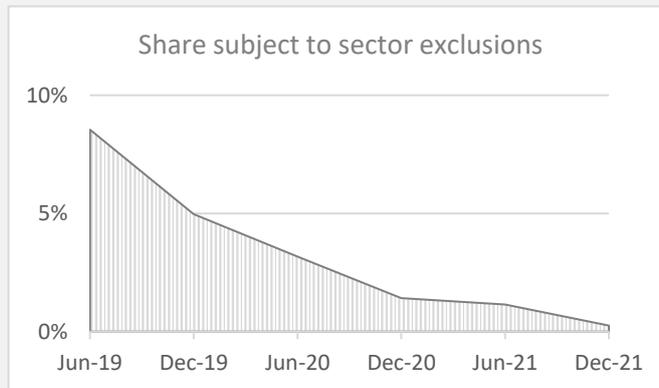


A company is considered eligible for the European taxonomy (formalised through a directive and technical standards) if its activities belong to a list of predefined sectors. At this stage, a distinction is drawn between activities that may help to mitigate global warming, such as data processing and hosting services, and activities enabling adaptation to the expected effects of climate change, such as education. However, a significant proportion of the activities concerned appear in both categories. This is the case for wind or solar electricity generation, for example.

## Grey share

zero

The portfolios' exposure to activities linked to fossil fuels is calculated using an internal issuer classification system based on the share of turnover in question. A 5% threshold is applied. The grey share of our bond portfolios is immaterial, meaning that it falls below 0.1% of assets under management.



Including exclusions aimed at packaging plastic, fertilisers, pesticides, weaponry, etc. Our exclusion policy was enhanced in June 2021. The equity fund was included from January 2021.

## 8. Climate alignment

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### Quantitative 2030 objective

We have set ourselves the goal of reducing the carbon intensity of all portfolios under management. We aim to achieve a reduction of 60% by 2030, relative to the level at the end of 2018. This target implies an average fall in carbon intensity of 7.5% per year. We are gradually incorporating this into our UCITS documentation in the form of sustainable investment objectives within the meaning of article 9 of the EU SFDR. Over the longer term, our ambition is to reach carbon neutrality by 2050.

### Internal methodology

#### General approach

Our climate alignment strategy draws on the principles recommended by the Net Zero Asset Managers (NZAM) initiative. It consists in targeting, as a priority, companies operating in sectors considered sensitive owing to their potential impact on global warming. The sectors selected are those recommended by NZAM, as well as those identified by Anaxis on the basis of their greenhouse gas emission intensity (in tonnes expressed as a function of turnover).

The reduction in the portfolios' carbon intensity is to be achieved through a combination of two specific actions. The first concerns portfolio alignment: by 2026, 70% of investments in sensitive sectors must be allocated to companies that are neutral, aligned or on track to achieve alignment. The second takes the form of an engagement programme with companies that have yet to meet all our alignment criteria with a view to making significant progress over a one-year period.

The extent to which companies are aligned and incorporating climate issues into their strategy is assessed by means of an internal rating system using eight groups of environmental criteria to rank companies on a scale of A to E.

More detailed information on our methodology can be found in our ethical management policy.

#### Level of coverage and aggregation method

We are targeting a coverage level of 100% of assets under management, with a tolerance threshold of 10% necessitated by portfolio rotation and the arrival of new issuers on the primary market. The selected aggregation method uses the funds' AUM and the market values of the positions. At the end of the year, the coverage level was 96.1%.

### Selected time horizon for the assessment

Our analysis combines two time horizons. A long-term horizon was set for 2050 for us to ensure that the companies are compliant with the objectives of the Paris Agreement and seeking to achieve carbon neutrality within a reasonable timeframe.

A medium-term horizon of 2030 has also been set. We felt that this was important to prevent the necessary efforts being pushed too far into the future, making the transition more difficult and more expensive.

We apply these two horizons to our own management activities. As each company we study has its own climate strategy, we carry out a case-by-case assessment to determine whether this strategy is consistent with the efforts we deem necessary, depending on the sector in question, to achieve our medium- and long-term objectives.

### Assumptions made, energy-climate scenario

We have decided not to apply an energy-climate scenario when assessing companies' degree of alignment. Such scenarios can be useful from a forward-looking statistical perspective and when defining new regulations or public policies. But our aim is to encourage companies to engage with the climate transition by adopting ambitious strategies.

For example, we do not assume that the greenhouse gas intensity of an industrial group will fall because of expected changes to the energy mix in the countries in which the group has a presence. It must have a clear transition plan to develop new renewable energy sources or buy electricity from suppliers with a commitment to this approach.

Our estimates rely on sector emissions data as at 31 December 2019. This prevents the results obtained by companies that are making progress towards climate transition and embracing transparency by publishing their figures from indirectly benefiting companies whose information is missing.

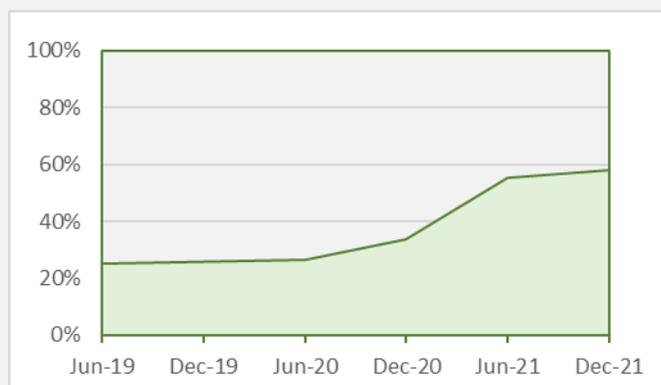
58%



The share of portfolio companies that publish at least one quantified figure on their greenhouse gas emissions is 58% (as a percentage of assets held).

### Methodological limitations

- The environmental analysis is primarily based on information provided by companies. The figures are not always audited. The methodologies used and scopes considered may vary, meaning that comparisons and aggregations should be treated with caution.
- It is necessary to use estimates and assumptions in certain cases, for instance where data on greenhouse gas emissions is unavailable or incomplete.
- There is too little data available currently to assess indirect greenhouse gas emissions, such as those linked to the use of products or services provided by companies.
- Certain assessment criteria are based on the forecasts, commitments or strategies published by companies. The reality may turn out to be different.
- Certain criteria are based on internal procedures or policies published by companies. Such procedures and policies may not be applied, or may be applied only partially.
- Certain information may not be recent enough to reflect the current situation for the company in question. This may be the case when information is taken from an annual report, for example, or when major changes have taken place within the company.
- No analysis, however rigorous, can predict controversies or future events that may have a major negative impact.



Share of portfolio companies publishing data on their greenhouse gas emissions

### Selected scope

We use three different scopes to calculate greenhouse gas emissions. These scopes are used by the companies to report their annual emissions.

<b>Scope 1</b>	Direct emissions from sources held or controlled by the company.	
<b>Scope 2</b>	Indirect emissions linked to the energy consumption required to manufacture the products or provide the services offered by the company.	
<b>Scope 3</b>	<b>Upstream</b> Emissions resulting from the manufacture of purchased goods and raw materials.	<b>Downstream</b> Emissions resulting from the use of the products by clients.

Scope 1 and 2 emissions are taken into account. These are direct emissions from sources held or controlled by the company (scope 1) or linked to the energy consumption (electricity, heat, steam) required to manufacture the products or provide the services offered (scope 2). Indirect emissions (scope 3) resulting from the manufacture of purchased goods and raw materials (upstream) or from the use of the products by customers (downstream) are not taken into account at this stage owing to a lack of sufficiently representative data published by companies.

**Note** We do not use the concept of avoided emissions or negative emissions in our greenhouse gas emissions calculations. Some companies use CO<sub>2</sub> capture or reforestation programmes to reduce published net emissions, but this effect remains very marginal. It does not cast doubt on the quality of the aggregated data.

Several different greenhouse gases must be taken into account for their environmental impact. The main gas emissions measured are carbon dioxide (CO<sub>2</sub>), methane (CH<sub>4</sub>) and nitrous oxide (N<sub>2</sub>O). Other gases resulting from industrial processes, such as halogenated hydrocarbons, can also have a significant greenhouse effect. However, it is estimated that carbon dioxide and methane are responsible for 74% and 17%, respectively, of the climate impact of gas emissions linked to human activity.

We aggregate various types of gas emission by converting the volumes into their CO<sub>2</sub> equivalent. To that end, we consider the greenhouse effect caused by the gas in question. Methane, for example, has a greenhouse effect 25 times as powerful as that of CO<sub>2</sub>. As such, the volumes of methane released into the atmosphere are multiplied by 25 before they are added to CO<sub>2</sub> emissions. The results are expressed in tonnes of CO<sub>2</sub> equivalent (t CO<sub>2</sub>e).

### Intensities

Annual emissions are expressed as a function of each company's turnover. This ratio, referred to as "CO<sub>2</sub> intensity", indicates the volume of gas emitted into the atmosphere resulting in €1 million of sales. CO<sub>2</sub> intensity varies widely from sector to sector depending on the nature of the activity.

Another way to measure CO<sub>2</sub> intensity is to express each company's annual emissions as a function of its stock market capitalisation (rather than its turnover). Intensity can then be interpreted as the volume of greenhouse gases associated with an investment of €1 million in the company. This approach is relatively intuitive for equity investors, but it is harder to apply to bonds. It depends on the company's debt level. It is possible to overcome this issue by using enterprise value, which we define as its market capitalisation + debt + available cash. The enterprise value is a better reflection of its economic reality in that it demonstrates how much money is actually used for its activities.

Given that only a small percentage of bond issuers publish their greenhouse gas emissions, it is necessary to estimate missing data using figures published by companies with comparable business activities. The method using the carbon intensity as a function of turnover yields good results when companies are similar in terms of products, production processes, energy sources and sale prices. Carbon intensity to enterprise value ratios can be more variable because they depend on the share price, which is in turn a function of factors such as growth and profits.

### Forward-looking estimate

It would be interesting to forecast the portfolios' CO<sub>2</sub> intensity for future years. However, doing so would involve assuming that the allocation will not change, whereas we have fixed-maturity funds and invest mainly in bonds maturing relatively soon. Such forecasts would also be based on scenarios, for example regarding the energy mix or the rollout of new technologies (such as CO<sub>2</sub> capture). The value of these extrapolations is debatable. Such exercises must not lead us to settle for hypothetical global changes. We must demand that each individual company make tangible progress. That is why we prefer to use a company rating system and only take into account changes that have actually been observed.

The forward-looking aspect of our approach involves analysing companies' environmental objectives, how they are taking the growing risks associated with ecological and climate issues into account, the investment plans that should enable them to achieve their objectives and manage the identified risks, projects linked to the development of new "green" technologies, and governance of this transition. The key is to assess companies' ambition, commitment and credibility in the climate sphere, then determine how this should affect portfolio allocation. We also engage in dialogue with certain issuers about their objectives and projects.

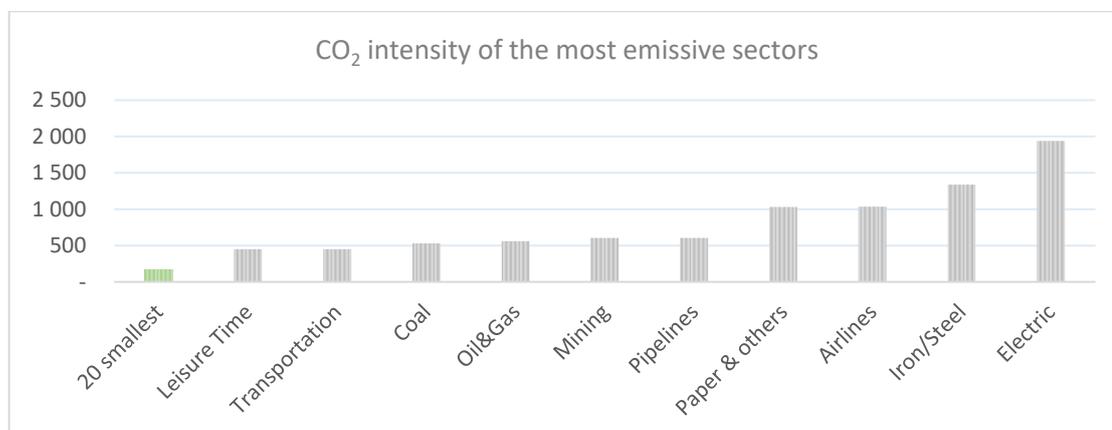
If the entire asset management industry were to follow this approach, we could create a strong incentive to effect meaningful change. We hope to contribute to this effort so that the most ambitious scenarios play out in reality rather than being left on the drawing board.

### Granularity

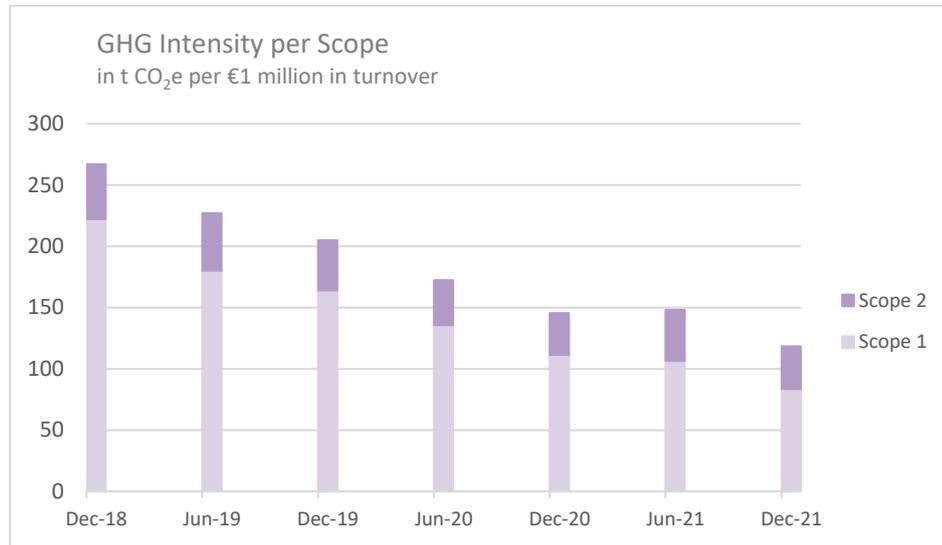
Where possible, we use data reported by the companies themselves. These figures are typically published on an annual basis. This is therefore the chosen timetable for revising our climate analyses of companies.

Unfortunately, a substantial proportion of corporate bond issuers, not all of which are listed companies, do not provide information on their greenhouse gas emissions. In such cases, we analyse the company's business sector and use the sector's median carbon intensity. While carbon intensities are more relevant than absolute quantities, there may be distortions linked to a company's size, turnover, national standards and individual performance. The sector-based classification used represents a compromise between the need to categorise companies' business activities as precisely as possible and the need to have enough examples within each sector. Ultimately, we divided the companies among 69 business sectors. Some of these are broken down even further, though.

For these estimates, we felt that it was preferable to use medians rather than means. Medians are less sensitive to extreme values and errors. The median figure splits the companies in the sector into two equal groups: those that published lower figures and those that published higher figures.



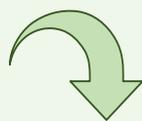
## Results



The management policy adopted by Anaxis has allowed us to significantly reduce the greenhouse gas emissions linked to the investments. Viewed collectively, and weighted as per their AUM, the estimated CO<sub>2</sub> intensity of our funds has fallen significantly since 2018, having dropped from 266.9 to 118.5 tonnes of CO<sub>2</sub> equivalent per million euro of turnover. For comparison, the intensity was 145.5 at the end of 2020. This change corresponds to a fall in intensity of 18.5% in one year, and 23.7% on average over the last three years.

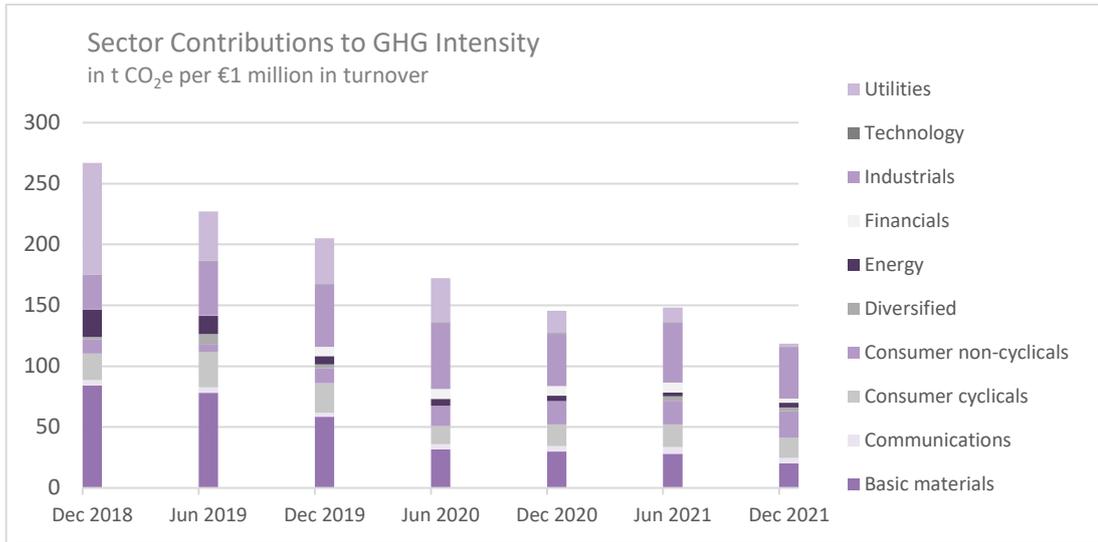
Scope 1 (direct emissions from sources held or controlled by the companies) accounts for 70% of the emissions linked to portfolio positions. This is also the area in which the clearest progress has been made (-27.8% per year versus -8.0% for scope 2).

**-55.6%**

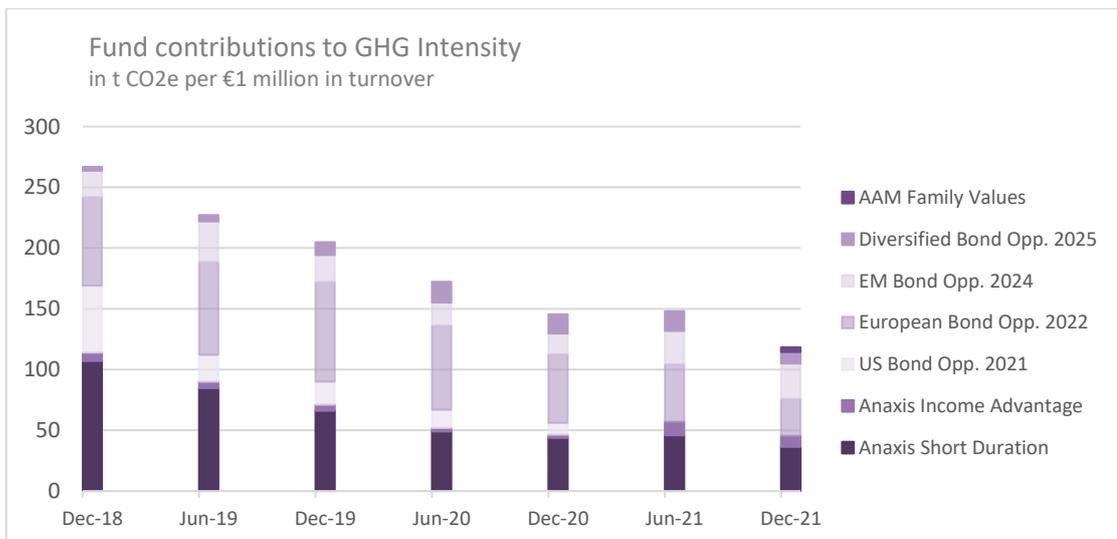


The average CO<sub>2</sub> intensity of investments held on behalf of our clients was reduced by 55.6% in three years (i.e. 23.7% per year).

Deciding to exclude the fossil fuel sector helped us to achieve this goal. Moreover, the reduction observed largely came from the basic materials and infrastructure sectors, as shown by the graph below. Allocation to these two sectors explained two-thirds of the intensity measured at the end of 2018. Their share had fallen to 19% (17% for materials and just 2% for infrastructure) by the end of 2021.



A third graph shows the contribution of each fund to the overall intensity of our investment activity. The figures take into account both individual fund intensities and the size of their assets under management. The AAM Family Values fund was only included in the calculations in December 2021. Its individual contribution is immaterial.



## Role and usage of the climate assessment

The aim of the climate assessment is to reduce the CO<sub>2</sub> intensity of our investments. It involves a company rating system. The ratings are used to adapt the allocations and target our engagement efforts.

This assessment is an integral part of our ethical management process, which has two pillars: firstly, managing the risks experienced by individual companies – and by the portfolios collectively – because of their exposure to certain environmental, social or governance factors; and secondly, reducing the harmful effects that companies' activities may have on the environment (including the climate, aquatic environments, water resources and biodiversity).

The table on the following page shows how the chosen assessment methodology in relation to climate complements the other environmental, social and governance quality indicators used more broadly in our investment strategy.

## Assessment frequency

Climate assessments are reviewed on an annual basis. They are based on the greenhouse gas emissions data and annual reports published by companies.

## A combination of complementary indicators

- 1** Classification of issuers by business sector and identification of issuers that, due to the nature of their operations, could have a substantial impact on the climate, water resources or aquatic environments.
- 2** Identification and exclusion of issuers whose business activities do not meet the requirements of our sector exclusion policy.
- 3** Environmental analysis and rating of issuers using criteria dependent on the intensity of potential impacts on the climate and the water theme.
- 4** Exclusion of issuers that have received inadequate ratings due to their potential environmental impacts, or implementation of individual engagement efforts over a one-year period. Quantified alignment and engagement objectives have been set for sectors deemed sensitive. These objectives are detailed in our ethical management policy.
- 5** Monthly alert to managers about low-scoring positions exceeding certain allocation thresholds, so as to favour the reduction of impacts across all sectors.
- 6** Rating of issuers based on four governance criteria: (i) transparency, (ii) organisation, (iii) consideration of stakeholders/diversity, (iv) integrity/tax policy; exclusion of the issuers with the lowest scores.
- 7** Systematic controversy monitoring; decisions of our ethics committee on excluding issuers involved in violations of the UN Global Compact principles or other ethical standards.
- 8** Identification of economic ties to political authorities; exclusion of companies controlled by authoritarian States, or political entities or individuals linked to such States.

## Changes made and monitoring

**July 2019** – We implemented a strategy to withdraw from fossil fuels from July 2019. An exclusion policy was drawn up. It targeted sectors including coal and oil. An exclusion threshold of 20% of turnover was applied. This covered producing, refining and transporting fuels and using fuels to generate electricity.

**June 2021** – The exclusion scope was extended to include natural gas and the threshold was reduced to 5% for exploration, extraction, production and refining of fossil fuels, as well as the generation of electricity, heat or other forms of energy using fossil fuels.

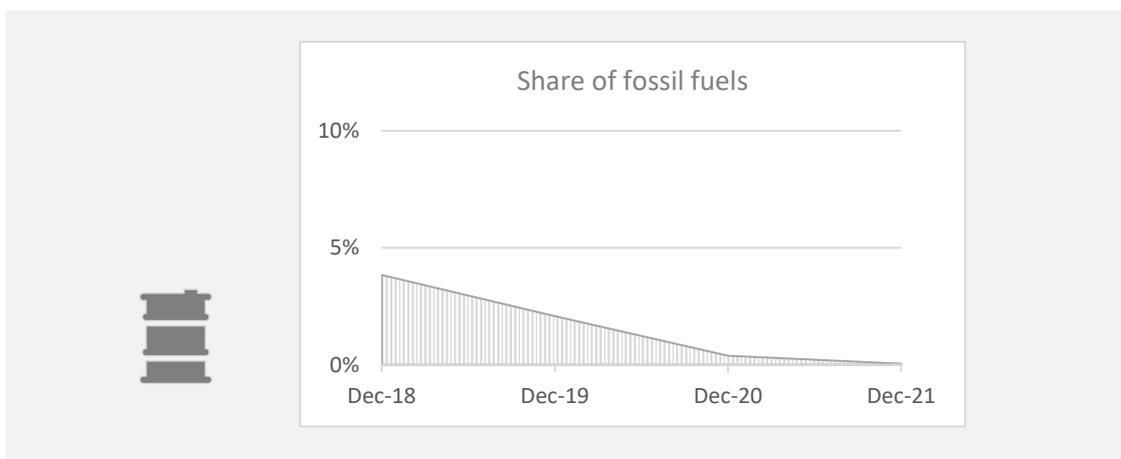
We also excluded companies developing controversial new projects, even where they were compliant with the 5% threshold: coal mining, shale gas exploitation, tar sands extraction, hydraulic fracking, Arctic drilling or deep-water drilling.

Furthermore, to reflect the danger posed by certain existing operations, we made a commitment to exclude these activities entirely by 2030. By the same date, new investments in conventional fossil fuels will no longer be tolerated, irrespective of the share of turnover in question.

**November 2021** – We introduced absolute thresholds for coal in order to better cover mining or energy giants with significant operations in this area. We now exclude mining companies that extract more than 10 million tonnes of coal per year, as well as electricity producers having an installed capacity of more than 5 gigawatts in coal-fired power stations.

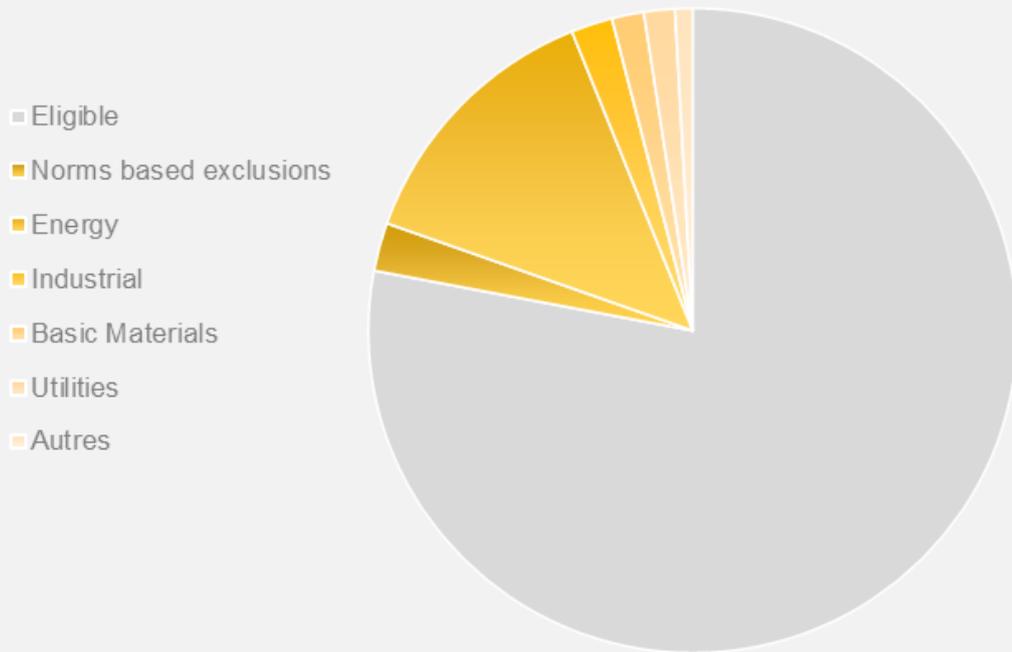
We also confirmed, at the request of the organisation Reclaim Finance, that the exclusion of controversial new projects also covered the construction, extension or modernisation of coal-fired power stations. Lastly, we clarified that we use the definition of the Arctic published by the AMAP (Arctic Monitoring and Assessment Programme), which is an Arctic Council working group.

As at the date of this report, we hold no significant positions in the field of fossil fuels and none of the companies in the portfolio are involved in controversial projects.



# 22%

of our investment universe are excluded for sector- or standards-based reasons.



## 9. Biodiversity

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We have adopted a range of measures aimed at protecting biodiversity when investment decisions are made. The first consists in identifying activities that are liable to do the most damage to biodiversity, then excluding these activities from our portfolios when they are not essential and alternatives exist. The table below shows the links between excluded activities and the damage we are seeking to avoid.

Fossil fuels	Global warming; acidification of the oceans, rising sea levels, fires
Fertilisers and pesticides	Poisoning of ecosystems, especially for insects and amphibians, lack of pollination, eutrophication
Plastic packaging	Pollution of marine environments, suffocation of animals
Non-therapeutic GMOs	Invasion of genetically modified species, disruption of ecosystems
Nuclear	Pollution, poisoning of animals and plants, malformations
Weapons	Destruction of ecosystems, poisoning, lighting of fires

Moreover, we assign a score for the water theme to companies operating in sectors classed as risky owing to their potential impact on water reserves (irrigation water or drinking water), fish stocks or aquatic ecosystems. Each month, we alert the management committee to the most sensitive positions from this point of view. Managers are encouraged to adjust the portfolio allocations accordingly.

## 10. Managing sustainability risks

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### Process implemented

## ENVIRONMENT

Identification	<p>The analysis table for environmental risks follows the recommendations of the TFCF. It offers a shared framework allowing for detailed analysis and homogenous comparisons. Within two broad categories – transition risks and physical risks – we distinguish six types of risk. The analysis covers 17 different themes in total. Details are provided below.</p>
Evaluation	<p>The issuer's exposure to environmental factors is analysed on two levels. The first evaluation takes into account the nature of the company's business activities and assigns a score for each factor on a scale of 0 (negligible risk) to 3 (high risk). An analysis of environmental risks focused on the specifics of each company is conducted by the management team and taken into consideration in investment recommendations.</p>
Prioritisation	<p>Managers are provided with a summary of climate risks every month. This allows for priorities to be identified in terms of managing this component of investment risk. Moreover, the main risks associated with the securities reviewed by the management committee are set out in a section of the summary.</p>
Management	<p>In general, climate risks are taken into account in our investment process through the implementation of three complementary policies: sector exclusions, analysis of issuers' exposure to climate factors and assessment of their contribution to the efforts required for the transition to a sustainable economy (climate rating).</p>

## SOCIAL ASPECTS

### Identification

The social aspects taken into account relate to compliance with the ten UN Global Compact principles, controversies and links with authoritarian political authorities guilty of human rights violations. Concerning situations are identified through internal monitoring of issuers, subscribing to the services of the agency ISS and reviewing NGO reports.

### Evaluation

An analysis file is compiled on each case that is identified. These files are put before the ethics committee, which comprises the Chairman, the Compliance Officer, the Risk Officer and a representative of the management team.

### Prioritisation

The ethics committee systematically investigates all issuers embroiled in a controversy scored between 8 and 10 by ISS, as well as those flagged to the committee internally (e.g. by a member of the management or sales teams). The shareholders and beneficiaries of companies in the portfolio are systematically reviewed by managers.

### Management

Each of the three aspects of our analysis (Global Compact, controversies, human rights) may give rise to exclusions imposed during meetings of our ethics committee.

## GOVERNANCE

### Identification

Governance risks are identified on the basis of a table made up of four main themes: (i) transparency, (ii) organisation, (iii) consideration of stakeholders/diversity, (iv) integrity/tax policy. Points requiring special attention from managers are defined for each theme. This stage in our process also relies on analyses from Lucror Analytics (in Europe and Latin America) and monitoring by the agency ISS.

### Evaluation

The evaluation takes place at the level of the management committee, which reviews each of the positions, as well as any company being considered for investment. Governance quality is scored on a scale of 1 to 4.

### Prioritisation

The worst score is a 4. This automatically triggers a decision to sell. In other cases, portfolios' exposure to governance risk is assessed on an aggregate basis every month. Individual positions warranting special attention are flagged to the management committee.

### Management

Managing governance risk is just as much an integral part of our investment process as financial analysis. Positions are systematically reviewed during management committee meetings specifically dedicated to issuer governance.

# INCORPORATION

## INTO THE CONVENTIONAL RISK MANAGEMENT FRAMEWORK

Managing corporate debt is our specialism. It is based on an in-depth analysis of issuers and seeks to build diversified portfolios, without reference to market indices. We assess the remuneration on offer in light of the risks incurred. The expected return is compared with the various sources of risk identified by the team.

Our ethical management policy takes this into account. It identifies the points requiring careful observation according to the three areas of environment, social responsibility and governance. When they are considered significant, these risks are discussed in detail in the analysis reports which serve as support for investment decisions and for monitoring the securities in the portfolio.

Moreover, we have decided to incorporate sustainability factors into our overall risk management process while also developing specific resources and tools. These risks are therefore the subject of reports and alerts just like financial ratios and market risks. The information circuit and the procedures followed are the same in both cases, but different resources are used for the production of reports.

The management committee monitors the various risk types on the same terms, under the supervision of the Risk Officer and the Chairman. The periodic and permanent control plans include sustainability factors as essential parts of the management process.

## Main risks identified

The following table summarises sustainability risks, using the categories listed previously for each domain. These risks have been characterised on the basis of the five criteria imposed by the regulations.

Risk description	Topicality	Nature	Occurrence	Intensity	Horizon
Political or legal	Current	Exogenous	Average	Strong	Short
Technology	Current	Double	Rare	Strong	Medium-long
Market	Current	Exogenous	Average	Average	Medium
Reputation	Emerging	Exogenous	Rare	Weak	Medium
Acute physical	Current	Exogenous	Frequent	Average	Short
Chronic physical	Emerging	Exogenous	Rare	Average	Long
Global Compact	Current	Endogenous	Average	Strong	Short
Controversies	Current	Endogenous	Average	Strong	Short
Human rights	Emerging	Exogenous	Rare	Strong	Short
Transparency	Current	Endogenous	Frequent	Strong	Short
Organisation	Current	Endogenous	Average	Average	Short
Stakeholders	Current	Endogenous	Average	Strong	Short
Integrity	Current	Endogenous	Rare	Strong	Short

Environment	Social	Governance
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## Segmentation of environmental risks

# TRANSITION RISKS



## POLICY AND LEGAL

### **P1. Increased pricing of greenhouse gas emissions**

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The portfolios under management have relatively little exposure to this factor, due to the systematic exclusion of high-emission sectors (fossil fuels in particular). But there is room for improvement, notably due to the presence of investments in the basic materials and infrastructure sectors. What is more, the transport, tourism and leisure sectors may be affected by the introduction of environmental taxes (on air transport, for instance) or the tightening of applicable standards. Sea freight, which consumes heavy fuel oil, is also implicated.

### **P2. Enhanced emissions reporting obligations**

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We do not see such obligations as a risk but rather as desirable progress. We believe that the costs associated with setting up internal procedures, measurement tools and additional resources are easily offset by the expected benefits in terms of operational efficiency and competitiveness in markets subject to ever more demanding standards.

### **P3. Mandates on and regulation of existing products and services**

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Such risks may affect the automotive and maritime freight sectors, as well as the transport sector more broadly. The construction sector has exposure to changes in technical standards that could increase the cost of buildings. The agri-food sector is affected by concerns about deforestation.

### **P4. Exposure to litigation**

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Certain companies may be accused of causing damage to the environment or having a negative impact on public health. We analyse the risk associated with proceedings that may follow an industrial accident, a breach of environmental or public health standards, or the identification of negative long-term effects. The portfolios invest in sectors including the agri-food, chemicals and pharmaceutical sectors, which appear to be specifically affected by this type of risk; the same applies to mining companies, owing to the seriousness of certain accidents and their impact on natural environments. Our decision to exclude the fertiliser and pesticide sectors helps to reduce portfolio exposure to this risk.



## TECHNOLOGY

### **T1. Substitution of existing products and services with lower emissions options**

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This concern mainly applies to energy generation and transport. Excluding coal, oil and other fossil energy sources helps reduce this risk substantially. However, this risk remains significant in the case of materials, transport and certain industrial processes.

### **T2. Unsuccessful investment in new technologies**

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Our management team pays very close attention to the possibility of such technological failure. Companies issue debt to finance their activities, especially when making new investments, building factories, developing new products, taking over other companies, etc. These projects are studied in detail before any purchase decision is made and existing positions are constantly monitored. Therefore, we consider this risk to be well controlled

### **T3. Costs to transition to lower emissions technology**

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This aspect appears to us to be particularly important for the sectors mentioned above. We complete the analysis of potential substitutions by integrating into our financial models the evolution in companies' expenses and investments when they have to change their products, modify their industrial processes or reduce the carbon intensity of their purchasing (energy, materials, intermediate products, etc.).



## MARKETS

### **M1. Changing customer behavior**

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In our portfolios, this risk is mainly present in the transport, cruises, tourism and leisure sectors. It may affect air transport because of its excessive carbon dioxide emissions and extend to a reduction in travel, or a preference for local leisure activities. Another change is under way in food, clothing and consumer staples. Environmental concerns are increasingly central for people with strong purchasing power.

### **M2. Uncertainty in market signals**

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It is difficult to assess this risk in a context where the fight against global warming encourages rapid adaptation of our economies. Our preference for sectors offering the most visibility protects the portfolios against excessive volatility.

### M3. Increased cost of raw materials

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We need to consider the impact of more responsible policies on deforestation and land use, for sectors such as wood, paper, agriculture, livestock or ethanol as an alternative to petroleum. In addition, the need for batteries and the construction of new power generation infrastructure increases the demand for certain metals, causing price pressures.



## RÉPUTATION

### R1. Shifts in consumer preferences

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We maintain a broad portfolio diversification, both across sectors and individual issuers. We believe that this method is effective at preventing the risks of a change in consumers' attitude towards a product or a company. This general approach is supplemented by an analysis of market trends, the competitive position of the issuer, the dynamics of its sales and its margins. Consumer preferences rarely change overnight. An in-depth knowledge of the issuers makes it possible to mitigate those risks. However, controversies can arise as a result of events or disclosures, turning customers away from certain products.

### R2. Stigmatisation of sector

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Some sectors are the source of legitimate concerns. Several of them are excluded from our portfolios because we consider that it is unnecessary – and even harmful for the environment or public health – to finance additional investments in these sectors. Others such as air transport or sea freight are retained, but in limited proportions. Overall, according to our analysis, the risk of the stigmatisation of a sector is very low within Anaxis portfolios.

### R3. Increased stakeholder concern or negative stakeholder feedback

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This risk must be taken seriously, especially with regard to the sources of financing available to companies with high levels of debt. If a company is judged harshly because of the climate impact of its activities, it could (i) have difficulty renewing its debt with new issues on the markets, (ii) be refused loans by financial institutions applying an ESG policy, or (iii) suffer an increase in its debt burden (paying higher coupons becoming necessary to attract more reluctant or fewer investors). This risk seems to us to be well contained by our sector exclusion policy and our diversification rules.

# PHYSICAL RISKS

## ACUTE



### A1. Increased severity of extreme weather events such as cyclones and floods

It is not a significant risk in our portfolios. The companies whose debt we buy are large in size, and their facilities are generally spread over many geographic locations. However, we keep a close eye on organisations that have a small number of critical physical assets (for example a mine, factory, port, hotel, ship, terminal, data centre or infrastructure).

## CHRONIC



### C1. Changes in precipitation patterns and extreme variability in weather patterns

Agro-food, tourism and leisure are the sectors most directly affected. There are fears of lower agricultural yields and the diminishing attractiveness to tourists of certain regions or certain services such as cruises. Droughts also affect the use of rivers to transport goods when the water level is too low for barges to pass.

### C2. Rising mean temperatures

The analysis of this risk is similar to that described above. In addition, extreme heatwaves can disrupt certain businesses, slow down household consumption or have a negative impact on public health to an extent that is still difficult to assess. Large-scale fires are also on the rise, causing extensive damage.

### C3. Rising sea levels

We ensure that our portfolios do not have long-term exposure to assets located in areas sensitive to a rise in sea levels, such as infrastructure or facilities by the ocean. When companies with coastal assets are considered, the bond issues in question have maturities much shorter than those where scenarios of global warming-related melting ice and expanding oceans have been taken into account.

# BIODIVERSITY



Threats to biodiversity are numerous and hard to assess at the level of individual companies because the data is insufficient. Policies that would improve the situation at a national or international level are lacking. We have addressed this question through sector exclusions that protect the portfolios from controversies and the most sweeping regulatory changes. We do not invest in the pesticide, fertiliser or packaging plastic sectors. We also steer clear of producers and users of non-therapeutic GMOs, particularly within agriculture and agri-food.

The portfolio sectors with the greatest exposure are infrastructure construction, mining, materials, agriculture, livestock, fishing, food, chemicals and pharmaceuticals. Companies within these sectors are likely to incur additional costs or lose turnover if their practices are shown to be too harmful to biodiversity and this provokes a reaction from consumers, clients or regulators.

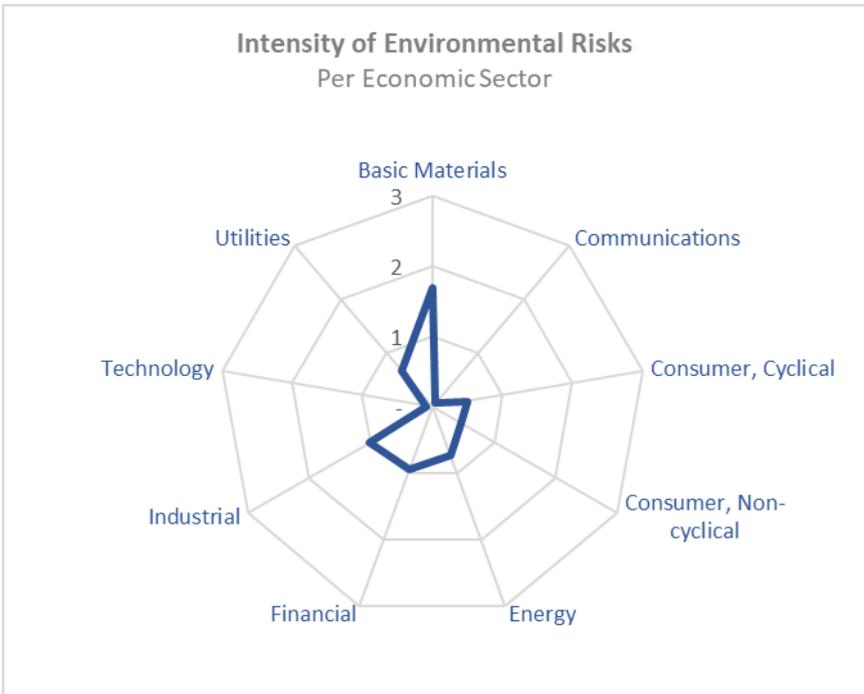
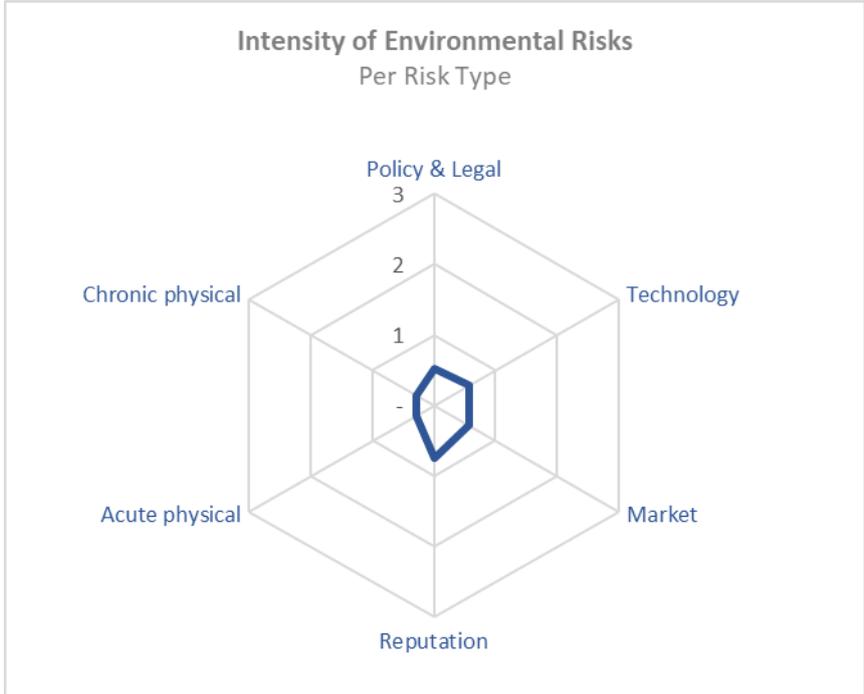
## Summary of sustainability risks

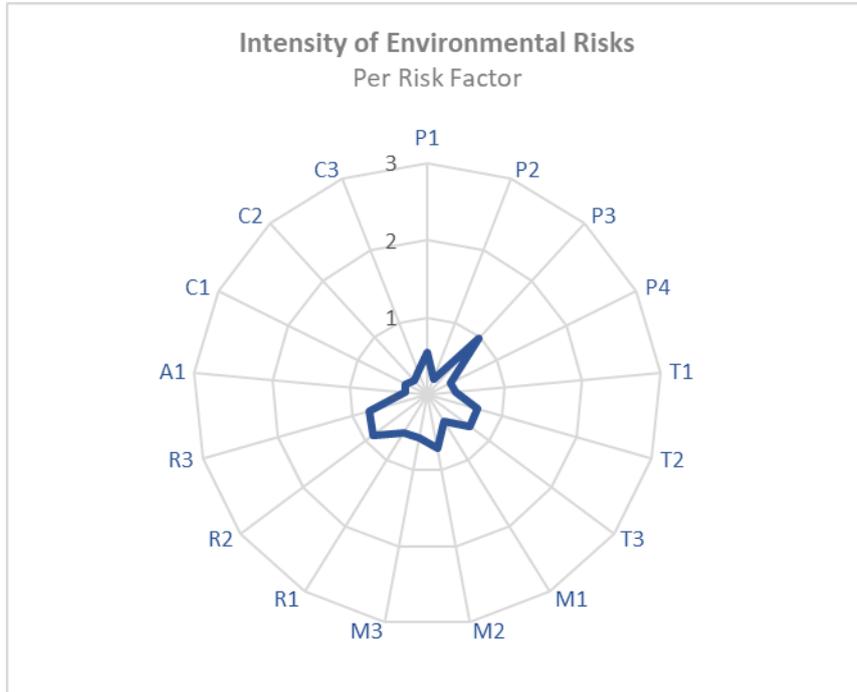
### Background

The figures published in this report provide an overview of our commitment to fostering the transition to a sustainable economy, with a particular focus on our contribution to the fight against climate change, the acidification of the oceans and the disruption of ecosystems. This fight concerns human societies too. We face greater risks as a direct result of global warming, including receding coastlines, storms, droughts, human migration, lower agricultural yields and the depletion of fish stocks. Reducing greenhouse gas emissions is essential if we are to mitigate global warming and prevent harmful consequences for people and planet alike.

### Exposure

We believe that our portfolios have relatively little exposure to climate risks, chiefly thanks to fossil fuel sector exclusions and our approach based on a financial analysis that prioritises visibility and control of uncertainties. An examination of the main climate risks based on TFCF recommendations is presented below. Risks are assessed on a scale of 0 (negligible) to 3 (strong).





- P1 Increased pricing of greenhouse gas emissions
- P2 Enhanced emissions reporting obligations
- P3 Mandates on and regulation of existing products and services
- P4 Exposure to litigation
- T1 Substitution of existing products and services with lower emissions options
- T2 Unsuccessful investment in new technologies
- T3 Costs to transition to lower emissions technology
- M1 Changing customer behaviour
- M2 Uncertainty in market signals
- M3 Increased cost of raw materials
- R1 Shifts in consumer preferences (reputation)
- R2 Stigmatisation of sector
- R3 Increased stakeholder concern or negative stakeholder feedback
- A1 Increased severity of extreme weather events such as cyclones and floods
- C1 Changes in precipitation patterns and extreme variability in weather patterns
- C2 Rising mean temperatures
- C3 Rising sea levels

## Criteria used

Risks are selected on the basis of their probable frequency, their potential impact on the value of the investments, regulatory requirements, recommendations from specialist agencies and portfolio positioning, especially in sector and geographic terms.

We have boiled down the scores to simple averages in order to present summary information offering an assessment of the environmental risks incurred by our funds. Each of the 17 factors described in the previous pages therefore has the same weight. These averages are not used to make investment decisions because what matters most to us is identifying potential weaknesses at the level of each individual risk.

## Review frequency of the risk management framework

The risk management framework is reviewed on an annual basis in order to:

- (i) incorporate the new risk factors identified in relation to the environment, social responsibility or corporate governance,
- (ii) improve risk analysis through constant progress as regards the availability of information and the publication of reports by companies,
- (iii) guarantee the suitability of the risk management and control processes, and ensure that they are effectively incorporated into the portfolio management activity,
- (iv) reassess the services rendered by external agencies used to enhance or supplement our risk management tools,
- (v) adapt our methods in light of regulatory changes or the most relevant recommendations from collective initiatives.

## Action plan

### Identifying and assessing risks

The aim of our action plan is to ensure better coverage of the full range of sustainability risks and establish more granular measures allowing for the identification of circumstances that could lead to a significant fall in the value of the investments present within the portfolios. We are currently considering how risks should be quantified and the principles on which allocations should be adjusted based on the intensity of the sustainability risks. The question of information is a vital one as regards its availability, reliability, homogeneity and cost.

### Forward-looking data

As soon as the necessary data is available and climate simulation models can be linked to the actual situation for companies, it will be possible to carry out sustainability risk assessments on a forward-looking basis. In other words, we will be able to take into account probable changes in environmental conditions and their effects on companies' operations (and hence the value of their securities).

## Financial Impact

**-0.70%**

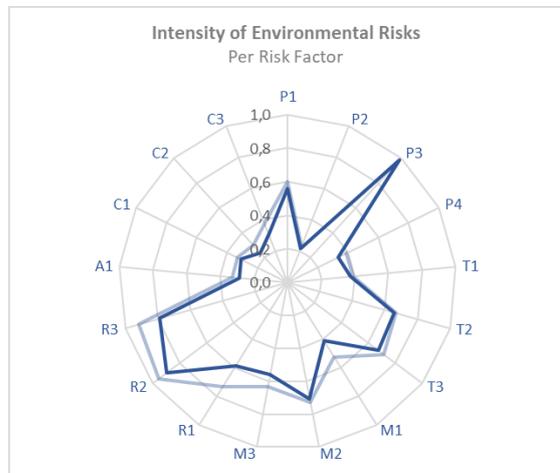
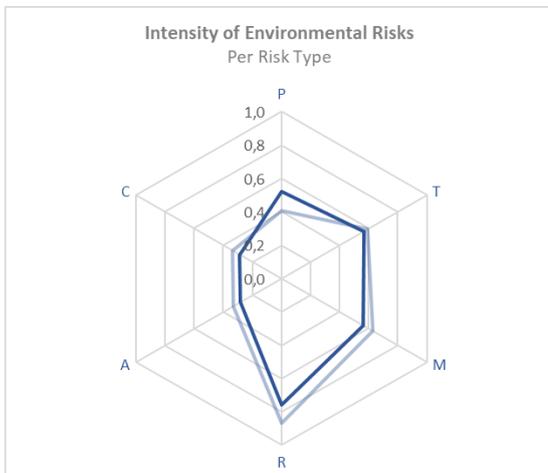


According to our estimates, the average annual loss incurred due to our portfolios' exposure to environmental risks is 0.70%. This risk rises to 1.1% for the equity portfolio.

Our model relies on quantified assumptions established in accordance with the understanding of environmental risks presented above. These assumptions differ depending on whether the risk in question is current or emerging, endogenous or exogenous. They also depend on the specified frequency, intensity and horizon.

## Evolution of methods and results

The segmentation of environmental risks remains unchanged since it was established in 2019, although P3 risk has been added. The quantification method has not changed and the global indicator has fallen for all funds (stable for Anaxis Income Advantage). Variations per category and per factor between 2020 (light blue) and 2021 (dark blue) are shown below.



# 11. Improvement plan

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## Climate scenarios

For physical and transition risks, we intend to develop supplementary analysis based on scenarios proposed by recognised experts in the field of climate transition, including at least one scenario to 1.5 °C or 2 °C and at least one scenario of a trend-based or disordered transition, taking into account the national contributions of the parties to the United Nations framework agreement on climate change. The introduction of supplementary tools is under consideration, in particular based on CDP projections in line with the requirements of the Science-Based Targets initiative. We intend to introduce analysis for each scenario next year.

## Individualised physical risks

As regards physical risks, we would like to include information specific to the companies when quantifying their exposure to the effects of climate change (including extreme weather events). To that end, information must be collected on the nature and location of companies' premises, then combined with statistics or, ideally, scenarios covering the various types of risk considered (droughts, storms or rising sea levels for example). Considerations regarding methodology are under way. Results are expected in 2023.





We have committed to reducing greenhouse gas emissions, in line with the spirit of the Paris Agreement. As a management company making investment choices, our desire is to help protect the environment and public health. We have set ourselves the specific target of defining a trajectory that entails reducing the intensity of our portfolios by 60% by 2030.

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